LEGACY AG CREDIT, ACA

2018
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2018

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Derrell Chapman, CPA, Chief Executive Officer
November 6, *2018*

Terry Milligan, Chairman, Board of Directors
November 6, *2018*

Daryl D. Belt, Chief Financial Officer
November 6, *2018*

John Shinn, CPA, Chairman, Audit Committee
November 6, *2018*

LEGACY AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 2018. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2017 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In February 2018, the board of directors approved a patronage payment of $2,100,000 related to 2017 earnings which was paid in April 2018.

As previously communicated by a letter to stockholders dated November 22, 2016, the merger with Texas Farm Credit Services was terminated by a vote of the Legacy Ag Credit board at the November 2016 board meeting. See Terminated Merger Discussion section in 2016 Annual Report for additional information. A copy of the report is available on the association's website at www.legacyaca.com.

Effective January 10, 2017, the association was placed under special supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA, through three Supervisory Letters issued during 2017, established a number of supervisory requirements including the engagement of a board consultant approved by the FCA.

Effective February 20, 2018, FCA recognized the progress made by the board in improving its governance performance and terminated the three previously issued Supervisory Letters. FCA issued a new Supervisory Letter dated February 20, 2018 that included an ongoing requirement for a board consultant, fulfillment of certain planned board training activities, and submission of a plan for benchmarking assessments of both board and individual director performance compared to previous assessments. The board has plans and resources in place to meet the requirements of the February 20, 2018 FCA letter. The board consultant continues to attend monthly board meetings and is working closely with the directors to improve overall board governance performance through focused training and enhanced management reporting activities. All FCA reporting requirements have been met through September 30, 2018. The process for benchmarking assessments of both board and individual director performance compared to previous assessments was completed during the third quarter of 2018 and submitted to FCA on September 18, 2018.

Loan Portfolio:

Total loans outstanding at September 30, 2018, including nonaccrual loans and sales contracts, were $264,786,840 compared to $246,432,546 at December 31, 2017, reflecting an increase of 7.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at September 30, 2018, compared to 0.8 percent at December 31, 2017.

The association recorded $10,280 in recoveries and $0 in charge-offs for the quarter ended September 30, 2018, and $1,500 in recoveries and $0 in charge-offs for the same period in 2017. The association's allowance for loan losses was 0.5 percent and 0.5 percent of total loans outstanding as of September 30, 2018, and December 31, 2017, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	September 30, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Nonaccrual	**$ 898,797**	**22.6%**	$ 1,932,653	39.1%
Formally restructured	**3,024,096**	**76.1%**	3,005,558	60.9%
Other property owned, net	**49,290**	**1.2%**	-	0.0%
Total	**$ 3,972,183**	**99.9%**	$ 4,938,211	100.0%

Results of Operations:

The association had net income of $1,029,352 and $3,072,323 for the three and nine months ended September 30, 2018, as compared to net income of $854,829 and $2,659,967 for the same period in 2017, reflecting an increase of 20.4 and 15.5 percent. Net interest income was $2,018,987 and $5,872,867 for the three and nine months ended September 30, 2018, compared to $1,930,286 and $5,732,683 for the same period in 2017.

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	Nine months ended			
	September 30, 2018		September 30, 2017	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 254,319,437**	**$ 10,016,517**	$ 237,477,508	$ 9,036,175
Interest-bearing liabilities	**200,328,253**	**4,143,650**	183,915,135	3,303,492
Impact of capital	**$ 53,991,184**		$ 53,562,373	
Net interest income		**$ 5,872,867**		$ 5,732,683

	2018 Average Yield	2017 Average Yield
Yield on loans	**5.27%**	5.09%
Cost of interest-bearing liabilities	**2.77%**	2.40%
Interest rate spread	**2.50%**	2.69%
Net interest income as a percentage of average earning assets	**3.09%**	3.23%

	Three months ended: September 30, 2018 vs. September 30, 2017		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 640,852**	**$ 339,490**	**$ 980,342**
Interest expense	**294,811**	**545,347**	**840,158**
Net interest income	**$ 346,041**	**$ (205,857)**	**$ 140,184**

Interest income for the three and nine months ended September 30, 2018, increased by $394,263 and $980,342, or 12.6 and 10.9 percent respectively, from the same period of 2017, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2018, increased by $305,562 and $840,158, or 25.7 and 25.4 percent, from the same period of 2017 due to an increase in interest rates as well as an increase in average debt volume. Average loan volume for the third quarter of 2018 was $260,001,346, compared to $243,653,473 in the third quarter of 2017. The average net interest rate spread on the loan portfolio for the third quarter of 2018 was 2.5 percent, compared to 2.6 percent in the third quarter of 2017.

The association's return on average assets for the nine months ended September 30, 2018, was 1.57 percent compared to 1.47 percent for the same period in 2017. The association's return on average equity for the nine months ended September 30, 2018, was 7.07 percent, compared to 6.26 percent for the same period in 2017.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	September 30, 2018	December 31, 2017
Note payable to the bank	**$ 210,638,795**	$ 191,700,575
Accrued interest on note payable	**494,708**	414,846
Total	**$ 211,133,503**	$ 192,115,421

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $210,638,795 as of September 30, 2018, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.77 percent at September 30, 2018. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2017, is due to the association's increase in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $49,107,896 at September 30, 2018. The maximum amount the association may borrow from the bank as of September 30, 2018, was $249,891,583 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued in the future. As borrower payments are received, they are applied to the association's note payable to the bank.

Capital Resources:

The association's capital position increased by $3,030,446 at September 30, 2018, compared to December 31, 2017. The association's debt as a percentage of members' equity was 3.63:1 as of September 30, 2018, compared to 3.53:1 as of December 31, 2017.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2018, the association exceeded all regulatory capital requirements.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2017 Annual Report of Legacy Ag Credit, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district are also available on its website at *www.farmcreditbank.com.*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Legacy Ag Credit, ACA, 303 Connally St., Sulphur Springs, TX 75482 or calling (903)885-9566. The annual and quarterly stockholder reports for the association are also available on its website at www.legacyaca.com. Copies of the association's quarterly stockholder reports can also be requested by e-mailing sherry.sturgis@legacyaca.com.

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash	$ 125,000	$ 104,733
Loans	264,786,840	246,432,546
Less: allowance for loan losses	1,345,582	1,302,631
Net loans	263,441,258	245,129,915
Accrued interest receivable	1,667,469	1,129,861
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	3,695,075	3,695,075
Other	890,859	199,386
Other property owned, net	49,290	-
Premises and equipment, net	772,794	636,280
Other assets	167,991	165,157
Total assets	$ 270,809,736	$ 251,060,407
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 210,638,795	$ 191,700,575
Advance conditional payments	-	30,594
Accrued interest payable	499,929	416,552
Drafts outstanding	86,781	5,095
Patronage distributions payable	-	2,100,000
Other liabilities	1,094,915	1,348,721
Total liabilities	212,320,420	195,601,537
MEMBERS' EQUITY		
Capital stock and participation certificates	1,069,725	1,106,505
Unallocated retained earnings	57,385,736	54,313,434
Accumulated other comprehensive income (loss)	33,855	38,931
Total members' equity	58,489,316	55,458,870
Total liabilities and members' equity	$ 270,809,736	$ 251,060,407

The accompanying notes are an integral part of these combined financial statements.

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
INTEREST INCOME				
Loans	**$ 3,514,714**	$ 3,120,451	**$ 10,016,517**	$ 9,036,175
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**1,495,727**	1,190,165	**4,143,649**	3,303,480
Advance conditional payments	**-**	-	**1**	12
Total interest expense	**1,495,727**	1,190,165	**4,143,650**	3,303,492
Net interest income	**2,018,987**	1,930,286	**5,872,867**	5,732,683
PROVISION FOR LOAN LOSSES	**7,986**	(50,687)	(130,853)	(158,227)
Net interest income after provision for loan losses	**2,011,001**	1,980,973	**6,003,720**	5,890,910
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**262,663**	172,227	**723,842**	513,642
Loan fees	**32,844**	86,735	**84,956**	204,521
Refunds from Farm Credit System Insurance Corporation	**-**	-	**135,518**	-
Financially related services income	**39**	36	**291**	343
Gain on sale of other property owned, net	**36,028**	-	**36,028**	1,715
Gain on sale of premises and equipment, net	**-**	-	**33,164**	27,985
Gain on other assets	**-**	-	**-**	31,412
Other noninterest income	**(17,348)**	44	**44,016**	27,836
Total noninterest income	**314,226**	259,042	**1,057,815**	807,454
NONINTEREST EXPENSES				
Salaries and employee benefits	**834,855**	723,724	**2,491,844**	2,161,229
Directors' expense	**40,614**	81,314	**157,605**	235,181
Purchased services	**120,679**	274,912	**321,046**	634,424
Travel	**67,929**	42,030	**179,022**	153,485
Occupancy and equipment	**51,187**	57,722	**165,936**	199,651
Communications	**21,629**	35,229	**96,566**	97,871
Advertising	**30,363**	21,004	**67,531**	43,135
Public and member relations	**27,127**	33,401	**71,978**	98,963
Supervisory and exam expense	**30,120**	29,944	**84,729**	75,267
Insurance Fund premiums	**37,133**	58,009	**108,365**	169,768
Loss on other property owned	**6,536**	(1,795)	**14,821**	21,092
Provision for other property owned	**(10,906)**	-	**72,217**	-
Other components of net periodic postretirement benefit cost	**869**	(313)	**2,605**	(939)
Other noninterest expense	**37,740**	30,005	**154,947**	149,270
Total noninterest expenses	**1,295,875**	1,385,186	**3,989,212**	4,038,397
NET INCOME	**1,029,352**	854,829	**3,072,323**	2,659,967
Other comprehensive income:				
Change in postretirement benefit plans	**(1,692)**	(2,948)	**(5,076)**	(8,844)
COMPREHENSIVE INCOME	**$ 1,027,660**	$ 851,881	**$ 3,067,247**	$ 2,651,123

The accompanying notes are an integral part of these combined financial statements.

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 1,112,315	$ 55,405,211	$ 76,474	$ 56,594,000
Comprehensive income	-	2,659,967	(8,844)	2,651,123
Capital stock/participation certificates and allocated retained earnings issued	103,720	-	-	103,720
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(113,630)	-	-	(113,630)
Patronage paid	-	(2,399,984)	-	(2,399,984)
Balance at September 30, 2017	$ 1,102,405	$ 55,665,194	$ 67,630	$ 56,835,229
Balance at December 31, 2017	$ 1,106,505	$ 54,313,434	$ 38,931	$ 55,458,870
Comprehensive income	-	3,072,323	(5,076)	3,067,247
Capital stock/participation certificates and allocated retained earnings issued	87,235			87,235
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(124,015)			(124,015)
Patronage paid		(21)		(21)
Balance at September 30, 2018	**$ 1,069,725**	**$ 57,385,736**	**$ 33,855**	**$ 58,489,316**

The accompanying notes are an integral part of these combined financial statements.

LEGACY AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the counties of Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. Descriptions of the significant accounting policies are included in the 2017 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition but did change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

In June 2016, FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2018, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2018 Amount**	December 31, 2017 Amount
Production agriculture:		
Real estate mortgage	**$ 214,710,255**	$ 197,323,124
Production and intermediate term	**13,012,766**	12,447,990
Agribusiness:		
Loans to cooperatives	**2,553,456**	1,673,345
Processing and marketing	**21,225,437**	20,123,055
Farm-related business	**565,381**	761,706
Communication	**2,889,187**	3,757,372
Energy	**4,114,418**	4,369,376
Water and waste water	**1,995,031**	1,994,398
Rural residential real estate	**3,720,909**	3,982,180
Total	**$ 264,786,840**	$ 246,432,546

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Production and intermediate term	$ 6,341,307	$ -	$ -	$ -	$ 6,341,307	$ -
Agribusiness	24,344,274	-	-	-	24,344,274	-
Communication	2,889,187	-	-	-	2,889,187	-
Energy	4,114,418	-	-	-	4,114,418	-
Water and waste water	1,995,031	-	-	-	1,995,031	-
Total	$ 39,684,217	$ -	$ -	$ -	$ 39,684,217	$ -

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$ 889,475**	$ 1,210,053
Production and intermediate term	**9,322**	722,600
Total nonaccrual loans	**898,797**	1,932,653
Accruing restructured loans:		
Real estate mortgage	**3,024,096**	3,005,558
Total accruing restructured loans	**3,024,096**	3,005,558
Total nonperforming loans	**3,922,893**	4,938,211
Other property owned	**49,290**	-
Total nonperforming assets	**$ 3,972,183**	$ 4,938,211

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**97.4** %	97.8 %
OAEM	**1.8**	1.2
Substandard/doubtful	**0.8**	1.0
	100.0	100.0
Production and intermediate term		
Acceptable	**97.5**	94.2
OAEM	**2.4**	-
Substandard/doubtful	**0.1**	5.8
	100.0	100.0
Loans to cooperatives		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Processing and marketing		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Farm-related business		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water and waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.5**	99.5
OAEM	**0.5**	0.5
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**97.8**	98.0
OAEM	**1.5**	0.9
Substandard/doubtful	**0.7**	1.1
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

September 30, 2018	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 240,026**	**$ -**	**$ 240,026**	**$ 215,894,112**	**$ 216,134,138**	**$ -**
Production and intermediate term	**277,724**	**-**	**277,724**	**12,906,601**	**13,184,325**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,554,858**	**2,554,858**	**-**
Processing and marketing	**-**	**-**	**-**	**21,258,996**	**21,258,996**	**-**
Farm-related business	**-**	**-**	**-**	**566,327**	**566,327**	**-**
Communication	**-**	**-**	**-**	**2,890,277**	**2,890,277**	**-**
Energy	**-**	**-**	**-**	**4,125,517**	**4,125,517**	**-**
Water and waste water	**-**	**-**	**-**	**2,005,253**	**2,005,253**	**-**
Rural residential real estate	**-**	**-**	**-**	**3,734,618**	**3,734,618**	**-**
Total	**$ 517,750**	**$ -**	**$ 517,750**	**$ 265,936,559**	**$ 266,454,309**	**$ -**

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 481,064	$ 514,049	$ 995,113	$ 197,253,775	$ 198,248,888	$ -
Production and intermediate term	820,465	11,833	832,298	11,743,555	12,575,853	-
Loans to cooperatives	-	-	-	1,673,982	1,673,982	-
Processing and marketing	-	-	-	20,141,873	20,141,873	-
Farm-related business	-	-	-	762,679	762,679	-
Communication	-	-	-	3,765,705	3,765,705	-
Energy	-	-	-	4,380,561	4,380,561	-
Water and waste water	-	-	-	2,024,620	2,024,620	-
Rural residential real estate	-	-	-	3,988,246	3,988,246	-
Total	$ 1,301,529	$ 525,882	$ 1,827,411	$ 245,734,996	$ 247,562,407	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2018, the total recorded investment of troubled debt restructured loans was $3,169,196, including $145,101 classified as nonaccrual and $3,024,095 classified as accrual, with specific allowance for loan losses of $0. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of September 30, 2018, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at period end and at December 31, 2017.

There were no troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the nine months ended September 30, 2018. Loans formally restructured prior to January 1, 2018, were $3,169,196.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs for the quarter ending September 30, 2018.

The predominant form of concession granted for troubled debt restructuring includes principal and interest reductions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Real estate mortgage	$ 3,169,196	$ 3,157,345	$ 145,101	$ 151,788
Production and intermediate term	-	24,538	-	24,538
Total	$ 3,169,196	$ 3,181,883	$ 145,101	$ 176,326

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2018			December 31, 2017		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate term	**$ -**	**$ -**	**$ -**	$ 11,833	$ 11,833	$ 1,085
Total	**$ -**	**$ -**	**$ -**	$ 11,833	$ 11,833	$ 1,085
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$3,913,571**	**$ 3,894,669**	**$ -**	$ 4,215,611	$ 4,221,064	$ -
Production and intermediate term	**9,322**	**810,182**	**-**	710,767	1,686,612	-
Total	**$3,922,893**	**$ 4,704,851**	**$ -**	$ 4,926,378	$ 5,907,676	$ -
Total impaired loans:						
Real estate mortgage	**$3,913,571**	**$ 3,894,669**	**$ -**	$ 4,215,611	$ 4,221,064	$ -
Production and intermediate term	**9,322**	**810,182**	**-**	722,600	1,698,445	1,085
Total	**$3,922,893**	**$ 4,704,851**	**$ -**	$ 4,938,211	$ 5,919,509	$ 1,085

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2018		September 30, 2017		**September 30, 2018**		September 30, 2017	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ -**	**$ -**	$ 46,537	$ (4,504)	**$ -**	**$ -**	$ 46,248	$ 50,898
Production and intermediate term	**-**	**-**	629,645	-	**-**	**-**	637,018	-
Total	**$ -**	**$ -**	$ 676,182	$ (4,504)	**$ -**	**$ -**	$ 683,266	$ 50,898
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$3,901,515**	**$ 89,426**	$4,464,505	$ 140,506	**$3,947,392**	**$ 223,781**	$4,414,974	$ 224,073
Production and intermediate term	**31,033**	**58,119**	704,639	1,772	**196,176**	**85,147**	741,514	5,216
Total	**$3,932,548**	**$ 147,545**	$5,169,144	$ 142,278	**$4,143,568**	**$ 308,928**	$5,156,488	$ 229,289
Total impaired loans:								
Real estate mortgage	**$3,901,515**	**$ 89,426**	$4,511,042	$ 136,002	**$3,947,392**	**$ 223,781**	$4,461,222	$ 274,971
Production and intermediate term	**31,033**	**58,119**	1,334,284	1,772	**196,176**	**85,147**	1,378,532	5,216
Total	**$3,932,548**	**$ 147,545**	$5,845,326	$ 137,774	**$4,143,568**	**$ 308,928**	$5,839,754	$ 280,187

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Waste/Water Disposal	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at June 30, 2018	$ 1,174,090	$ 72,222	$ 34,845	$ 4,099	$ 36,702	$ 1,766	$ 3,592	$ 1,327,316
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	10,280	-	-	-	-	-	10,280
Provision for loan losses	34,969	(22,265)	(2,698)	(1,114)	(1,158)	2	250	7,986
Balance at September 30, 2018	$ 1,209,059	$ 60,237	$ 32,147	$ 2,985	$ 35,544	$ 1,768	$ 3,842	$ 1,345,582
Balance at December 31, 2017	$ 1,140,115	$ 70,405	$ 37,872	$ 3,938	$ 44,078	$ 2,253	$ 3,970	$ 1,302,631
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	173,804	-	-	-	-	-	173,804
Provision for loan losses	68,944	(183,972)	(5,725)	(953)	(8,534)	(485)	(128)	(130,853)
Balance at September 30, 2018	$ 1,209,059	$ 60,237	$ 32,147	$ 2,985	$ 35,544	$ 1,768	$ 3,842	$ 1,345,582
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,209,059	60,237	32,147	2,985	35,544	1,768	3,842	1,345,582
Balance at September 30, 2018	$ 1,209,059	$ 60,237	$ 32,147	$ 2,985	$ 35,544	$ 1,768	$ 3,842	$ 1,345,582
Balance at June 30, 2017	$ 1,589,884	$ 262,284	$ 34,064	$ 3,999	$ 76,759	$ 2,251	$ 2,954	$ 1,972,195
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	1,500	-	-	-	-	-	1,500
Provision for loan losses	(379,844)	328,776	329	(24)	(947)	-	1,023	(50,687)
Balance at September 30, 2017	$ 1,210,040	$ 592,560	$ 34,393	$ 3,975	$ 75,812	$ 2,251	$ 3,977	$ 1,923,008
Balance at December 31, 2016	$ 1,694,452	$ 257,901	$ 28,885	$ 2,923	$ 79,111	$ 15,000	$ 2,676	$ 2,080,948
Charge-offs	(10,972)	-	-	-	-	-	-	(10,972)
Recoveries	2,759	8,500	-	-	-	-	-	11,259
Provision for loan losses	(476,199)	326,159	5,508	1,052	(3,299)	(12,749)	1,301	(158,227)
Balance at September 30, 2017	$ 1,210,040	$ 592,560	$ 34,393	$ 3,975	$ 75,812	$ 2,251	$ 3,977	$ 1,923,008
Ending Balance:								
Individually evaluated for impairment	$ 12,307	$ 532,339	$ -	$ -	$ -	$ -	$ -	$ 544,646
Collectively evaluated for impairment	1,197,733	60,221	34,393	3,975	75,812	2,251	3,977	1,378,362
Balance at September 30, 2017	$ 1,210,040	$ 592,560	$ 34,393	$ 3,975	$ 75,812	$ 2,251	$ 3,977	$ 1,923,008

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Waste/Water Disposal	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2018	$ 216,134,138	$ 13,184,325	$ 24,380,181	$ 2,890,277	$ 4,125,517	$ 2,005,253	$ 3,734,618	$ 266,454,309
Individually evaluated for impairment	$ 3,913,571	$ 9,322	$ -	$ -	$ -	$ -	$ -	$ 3,922,893
Collectively evaluated for impairment	$ 212,220,567	$ 13,175,003	$ 24,380,181	$ 2,890,277	$ 4,125,517	$ 2,005,253	$ 3,734,618	$ 262,531,416
Ending Balance at September 30, 2017	$ 195,397,927	$ 10,668,330	$ 22,195,540	$ 3,785,671	$ 4,426,761	$ 2,004,407	$ 4,473,802	$ 242,952,438
Individually evaluated for impairment	$ 4,213,299	$ 1,326,854	$ -	$ -	$ -	$ -	$ -	$ 5,540,153
Collectively evaluated for impairment	$ 191,184,628	$ 9,341,476	$ 22,195,540	$ 3,785,671	$ 4,426,761	$ 2,004,407	$ 4,473,802	$ 237,412,285

NOTE 3 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of September 30, 2018**	As of December 31, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	21.92%	22.81%
Tier 1 capital ratio	6.00%	2.50%	8.50%	21.92%	22.81%
Total capital ratio	8.00%	2.50%	10.50%	22.47%	23.63%
Permanent capital ratio	7.00%	0.00%	7.00%	22.04%	23.00%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	20.59%	21.68%
UREE leverage ratio	1.50%	0.00%	1.50%	21.58%	22.76%

September 30, 2018 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**39,949,336**	**39,949,336**	**39,949,336**	**39,949,336**
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,084,036**	**1,084,036**	**1,084,036**	**1,084,036**
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	-	-	-	-
Nonqualified allocated equities not subject to retirement	**16,542,652**	**16,542,652**	**16,542,652**	**16,542,652**
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,334,821**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(3,695,075)**	**(3,695,075)**	**(3,695,075)**	**(3,695,075)**
Other regulatory required deductions	-	-	-	-
	53,880,949	**53,880,949**	**55,215,770**	**53,880,949**
Denominator:				
Risk-adjusted assets excluding allowance	**249,454,979**	**249,454,979**	**249,454,979**	**249,454,979**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(3,695,075)**	**(3,695,075)**	**(3,695,075)**	**(3,695,075)**
Allowance for loan losses				**(1,334,821)**
	245,759,904	**245,759,904**	**245,759,904**	**244,425,083**

September 30, 2018 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**39,949,336**	**39,949,336**
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**1,084,036**	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	-	-
Nonqualified allocated equities not subject to retirement	**16,542,652**	**16,542,652**
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(3,695,075)**	-
Other regulatory required deductions	-	-
	53,880,949	**56,491,988**
Denominator:		
Total Assets	**266,950,603**	**266,950,603**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(5,207,723)**	**(5,207,723)**
	261,742,880	**261,742,880**

December 31,2017 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	39,713,594	39,713,594	39,713,594	39,713,594
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,100,551	1,100,551	1,100,551	1,100,551
Other required member purchased stock held <5 years				
Other required member purchased stock held > 5 years but < 7 years				
Other required member purchased stock held >7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held >5 years but < 7 years				
Allocated equities held >7	-	-	-	-
Nonqualified allocated equities not subject to retirement	15,777,695	15,777,695	15,777,695	15,777,695
Non-cumulative perpetual preferred stock				
Other preferred stock subject to certain limitations				
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,904,864	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(3,738,022)	(3,738,022)	(3,738,022)	(3,738,022)
Other regulatory required deductions	-	-	-	-
	52,853,818	52,853,818	54,758,682	52,853,818
Denominator:				
Risk-adjusted assets excluding allowance	235,474,246	235,474,246	235,474,246	235,474,246
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(3,738,022)	(3,738,022)	(3,738,022)	(3,738,022)
Allowance for loan losses				(1,904,864)
	231,736,224	231,736,224	231,736,224	229,831,360

December 31,2017 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	39,713,594	39,713,594
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,100,551	-
Other required member purchased stock held <5 years		
Other required member purchased stock held > 5 years but < 7 years		
Other required member purchased stock held >7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held >5 years but < 7 years		
Allocated equities held >7	-	-
Nonqualified allocated equities not subject to retirement	15,777,695	15,777,695
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(3,738,022)	-
Other regulatory required deductions	-	-
	52,853,818	55,491,289
Denominator:		
Total Assets	249,086,955	249,086,955
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(5,253,490)	(5,253,490)
	243,833,465	243,833,465

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

Accum Other Comp Income (Loss)						
September 30, 2018		**Before Tax**		**Deferred Tax**		**Net of Tax**
Nonpension postretirement benefits	**$**	**33,855**	**$**	**-**	**$**	**33,855**

September 30, 2017		Before Tax		Deferred Tax		Net of Tax
Nonpension postretirement benefits	$	67,630	$	-	$	67,630

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended June 30:

	2018	2017
Accumulated other comprehensive income (loss) at January 1	**$ 38,931**	$ 76,474
Amortization of prior service (credit) costs included		
in salaries and employee benefits	**(4,609)**	(6,148)
Amortization of actuarial (gain) loss included		
in salaries and employee benefits	**(467)**	(2,696)
Other comprehensive income (loss), net of tax	**(5,076)**	(8,844)
Accumulated other comprehensive income at September 30	**$ 33,855**	$ 67,630

NOTE 4 — INCOME TAXES:

Legacy Ag Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Legacy Ag Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Legacy Ag Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2017 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

September 30, 2018	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Other property owned	**-**	**-**	**54,000**	**54,000**	**-**

December 31, 2017	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 10,748	$ 10,748	$ -
Other property owned	-	-	-	-	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2017 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2017 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended September 30:

	Other Benefits	
	2018	2017
Service cost	**$ 6,199**	$ 5,090
Interest cost	**7,680**	7,906
Amortization of prior service (credits) costs	**(4,609)**	(6,148)
Amortization of net actuarial (gain) loss	**(467)**	(2,696)
Net periodic benefit cost	**$ 8,803**	$ 4,152

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2018, was $265,201 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2017, that it expected to contribute $0 to the district's defined benefit pension plan in 2017. As of September 30, 2018, $0 of contributions have been made.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

NOTE 8 — REGULATORY ENFORCEMENT MATTERS

As previously communicated by a letter to stockholders dated November 22, 2016, the merger with Texas Farm Credit Services was terminated by a vote of the Legacy Ag Credit board at the November 2016 board meeting. See Terminated Merger Discussion section in 2016 Annual Report for additional information. A copy of the report is available on the association's website at www.legacyaca.com.

Effective January 10, 2017, the association was placed under special supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA, through three Supervisory Letters issued during 2017, established a number of supervisory requirements including the engagement of a board consultant approved by the FCA.

Effective February 20, 2018, FCA recognized the progress made by the board in improving its governance performance and terminated the three previously issued Supervisory Letters. FCA issued a new Supervisory Letter dated February 20, 2018 that included an ongoing requirement for a board consultant, fulfilment of certain planned board training activities, and submission of a plan for benchmarking assessments of both board and individual director performance compared to previous assessments. The board has plans and resources in place to meet the requirements of the February 20, 2018 FCA letter. The board consultant continues to attend monthly board meetings and is working closely with the directors to improve overall board governance performance through focused training and enhanced management reporting activities. All FCA reporting requirements have been met through September 30, 2018. The process for benchmarking assessments of both board and individual director performance compared to previous assessments was completed during the third quarter of 2018 and submitted to FCA on September 18, 2018.

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 6, 2018, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.